

The New Realities of China-U.K. Relations

By JOHN ROSS



Chinese Vice Premier Ma Kai and U.K. Chancellor of the Exchequer George Osborne co-chair the fifth China-U.K. Economic and Financial Dialogue in Beijing on October 15, 2013.

B RITAIN's Chancellor of the Exchequer George Osborne concluded substantive economic agreements with China during his October visit to Beijing. They include giving London-based financial institutions the right to invest up to RMB 80 billion (US \$13 billion) in Chinese securities. Chinese banks will also be permitted to set up wholesale banking branches, rather than just subsidiary companies, in London. This will enable them to tap their huge parent banks' financial standing to meet capitalization and reserve requirements. Owing to previous restrictions, Chinese banks had preferred to base their European operations in Luxembourg rather than London.

There will now be direct RMB-sterling currency trading, rather than through the dollar, although a precise timetable has yet to be announced. This development follows last June's

RMB 200 billion (US \$32.6 billion) currency swap agreement between the U.K. and China. Osborne also announced the launch of a 24 hour "super priority" visa application for Chinese business visitors to the U.K. in a bid to remove bureaucratic barriers.

In the non-financial field, following an earlier agreement on Chinese company ABP's investment of up to US \$1 billion in the East London docklands area, a US \$1,200 billion Chinese investment in British property projects near Manchester Airport was also clinched.

These announcements formed part of a concerted charm offensive by U.K. politicians. Mayor of London Boris Johnson visited Beijing at the same time as Osborne, and Prime Minister Cameron is to visit China before the end of the year.

The dramatic change in the U.K.'s political approach demonstrates a sharp reversal of its policy over the past three years. After being elected prime minister, David Cameron held a meeting with the

Dalai Lama, despite warnings from China about the latter's political activities. As China's Deputy Finance Minister Zhu Guangyao stated: "Frankly speaking, Sino-British relations have suffered damage due to Prime Minister Cameron's meeting with [the] Dalai." Boris Johnson, moreover, closed London offices in Beijing and Shanghai that the previous mayor, Ken Livingstone, had set up.

On this occasion George Osborne stressed that Prime Minister Cameron had no plans to meet the Dalai Lama. The normally loquacious Johnson, who has written newspaper columns criticizing the emphasis on teaching Mandarin in U.K. schools, claiming that "Chinese cultural influence is virtually nil, and unlikely to increase," declined five times in a single U.K. TV interview to comment on whether or not he would meet the Dalai Lama, on the grounds that he was only a mayor.

In short, having arrogantly assumed that they

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could come to power and insult China without suffering any consequences, U.K. politicians have been taught a sharp lesson in world realities. Faced with China's economic rise, they have been forced to change their tune. It is clear that European countries that attack China's core interests, such as by encouraging the separatist activities of the Dalai Lama, will suffer painful consequences.

China's government will not, of course, allude to this hard-learned lesson in such blunt terms. But other commentators less obligated to observe diplomatic niceties may be more candid. U.K. leaders have found that pursuing their country's interests entails respect for China's core concerns. The contrast in their approach to that of Tony Abbott, leader of Australia's liberal party and prime minister-elect, who has from day one in office gone all out to achieve excellent relations with China, is plainly evident.

This U.K. experience is part of a general trend in Europe over the past five years. Some European countries, notably Germany, have pursued continuously good relations with China and benefited economically as a result. Others have had to go through the same learning curve as the U.K.

Five years ago, in the run-up to the Beijing Olympic Games, French President Sarkozy threatened not to attend the opening ceremony. In November 2010, however, when President Hu Jintao visited France, President Sarkozy did him the special courtesy of meeting him personally at the airport.

In early 2008 the *Irish Times* published a poll in a campaign on boycotting the Olympics that was promoted by figures from most Irish political par-



Mayor of London Boris Johnson speaks at the Go Global, Think London forum, held in Shanghai on October 17, 2013.

ties. It had the support of 43 percent of Ireland's population, the other 57 percent being in favor of participation. By contrast, in 2012, during Xi Jinping's visit to Ireland as vice president, every major party and newspaper advocated closer ties with China.

Since 2008, and the onset of the European economic crisis, China's investments in Europe have moved beyond bond purchases to major deals, particularly in infrastructure. These recent agreements with the U.K. are in the wake of the US \$3.5 billion purchase by China's Three Gorges Corporation of a 21 percent stake of EDP-Energias de Portugal SA, and that by China Investment Corporation, China's sovereign wealth fund, of a nine percent stake in the U.K.'s Thames Water holding company.

There has been strong debate in the U.K. media on relations with China. For example, the U.K. *Daily Telegraph* carried the headline on Xi Jinping's visit to the U.S. before he became president, "China's Upcoming Leader Xi Jinping Has Been Wined, Dined... and Warned." More recently, however, *The Guardian* carried an editorial entitled "Chinese Economy: Headaches to Die for," that argued "any appraisal of China's prospects must begin by admitting that the Middle Kingdom is the most astonishing development success story in the world today." Even tabloid newspapers, for example the U.K. *Daily Mirror*, carry articles emphasizing the positive role of U.K. trade relations with China.

Both the substantive agreements made and the political tone of leading UK politicians' visits to China show that previous disputes have been irrevocably decided in favor of those who want good relations with China. This is a development that benefits both sides.

The Chinese government's firm stance towards the U.K. after the Conservative-led government's provocative actions towards China clearly showed that it is willing to subordinate other considerations to defending the country's core interests. China would nevertheless clearly prefer and benefit from better relations with the U.K. Investment in the U.K. economy apart, London is Europe's financial capital and the world's most important center for foreign exchange dealing – a matter of considerable interest to China as it proceeds with RMB internationalization.

The U.K. government's earlier futile policy towards China wasted valuable time. It is good to see from the outcome of Osborne's visit that dealings between the two countries have returned to a rational path. The sharp reversal of the U.K. government's approach shows that it has suffered much more than China from its earlier policy. A win-win approach is, in any event, beneficial to all concerned. ■

The U.K. Minister for Universities and Science David Willetts attends the inauguration of the Taylor Hobson Laboratory at Beijing Machine Tool Research Institute on October 14, 2013.

